

CHAPTER 9

Airport Revolving Loan Fund & Bond Program

Section I. Background

The Virginia Airports Revolving Loan Fund (ARLF) Program was created by an Act of the 1999 Session of the Virginia General Assembly to help provide a low-interest source of funds to assist publicly owned, public-use airport sponsors with capital projects that could not be financed with grants-in-aid from the Commonwealth Airport Fund.³ The General Assembly directed the Virginia Aviation Board (VAB) to be the agency to approve airport sponsor loan requests. In turn, the legislation directs the Virginia Resources Authority (VRA) to set the terms and conditions of each loan and to actually make the loans to airport sponsors. To help support funding requests for even larger projects, the VRA has recently established a new Airport Bond Program to complement and supplement the ARLF Program approved by the General Assembly.

In order to establish the ARLF Program, two policy issues were considered: project eligibility criteria and project priority system. Although these two issues currently help direct Virginia's existing programs of financial assistance to aviation, they should also be applied to create a basis of equity for the new ARLF Program.

In addition to the two policy issues directly related to the ARLF, a project ranking system or ranking process was created to provide a final ranking of loan applications after they have been approved by the VAB and before they are processed by the VRA.

Finally, a procedure was developed to address the process the VRA and the VAB will follow in the event insufficient funds are available to cover all loan requests.

Section II. Loan Program Limits

The 2000 Session of the Virginia General Assembly provided the initial appropriation of \$25 million in General Funds to capitalize the ARLF. With the initial funding, the VRA can begin to make loans available to public use airports in the Commonwealth after July 1, 2000.

In addition, the Virginia Resources Authority recently created a new Airport Bond Program (ABP) to work in conjunction with the ARLF. While the ARLF is designed to provide loans for projects at any size airport, only projects that meet a threshold minimum of \$500,000 will probably be approved for a loan. Loans smaller than the \$500,000 minimum may be too small to justify the financing and administrative costs associated with making those loans under

³ Privately owned, public-use airport sponsors continue to be eligible for certain types of grants from the Commonwealth Airport Fund. The 2000 General Assembly has also provided a new General Fund grant-in-aid program to help fund capital projects at privately owned, public-use airports. This new program went into effect on July 1, 2001.

the leveraging of the ARLF. However, if the total estimated cost of an airport's projects is below the \$500,000 threshold, they should still consider submitting a loan application because there is a limited amount of funds available that can be used for direct loans. Airports seeking loans for significantly smaller projects that clearly are not eligible for funding from a grant-in-aid program administered by the Virginia Department of Aviation (DOAV) should probably consult local, commercial banks or lending institutions. ARLF loans are also expected to have a ceiling amount of \$15 million. Airport sponsors with larger projects should consider a direct loan from the ABP.

The new ABP will make direct loans to airports for relatively large projects. These loans will be funded by the proceeds of bond sales issued by the VRA that are backed by the moral obligation of the Commonwealth. The basic minimum amount for projects to be funded from the ABP is \$5 million and the maximum amount is expected to be limited to \$35 million. Specific information on loan amounts can be provided by the VRA.

Because some airport projects can be conveniently separated into sub-projects, e.g., gates, airline operating areas, public-use space, concession areas, baggage claim areas, and aircraft parking, it may be appropriate to fund a share of such projects from both the ARLF and the ABP. For this reason, a combined loan application form has been designed (copy attached) so that an airport sponsor can indicate a preference for a particular loan program with the understanding that the VRA may design a loan offer that incorporates a loan or combination of loans from one or both programs.

Airport sponsors should keep these factors in mind as they prepare and submit loan applications under these new programs.

Section III. General

Airport sponsors will be expected to use discretion in advising and/or communicating with airport tenants when planning and preparing loan applications for specific projects. As air carrier airport sponsors are required by federal regulations to notify and consult with airline tenants in the case of applications to impose Passenger Facility Charges (PFC) for certain capital improvements, it may be desirable and even necessary for all airport sponsors to formally notify tenants about their capital improvement plans. On the other hand, it may not be necessary for sponsors to advise tenants of efforts to refinance existing debt unless the refinancing would result in a change in rates or charges. Confirmation that the sponsor has notified airport tenants that would be impacted by the proposed project must be certified on the loan application.

With limited funds available for this program, airport sponsors will also need to confirm in the project description and justification section of the loan application that their projects are being proposed to address specific needs, and more important, that their projects are ready to proceed. The Aviation Board must balance the needs of all airports, insuring that preference is given to those projects which meet existing needs, including projects designed to deal with emergency conditions or immediate opportunities. Funds may not be available to fund projects that are clearly speculative in nature, to refinance existing debt, or to fund projects that are not ready to proceed.

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Airport sponsors seeking to use a loan from either fund should submit their applications by June 1st of each year for consideration by the VAB at the annual aviation conference in August.

While sponsors can submit loan applications anytime, the Virginia Resources Authority (VRA) is only expected to make revolving loans available during the period from November 1st through December 31st each year. This is because of the time it will take the VRA to review and process each application, conduct the necessary credit checks, perform the necessary financial review, and actually sell bonds at the most attractive terms. On the other hand, direct loans may be made by the VRA throughout the year according to demand and according to the availability of funds.

Shortly before each scheduled Board meeting, the DOAV should be able to advise the sponsor of the likely action to be taken by the Board on both types of applications. Because of the need of both the VAB and the VRA to review similar information, a single application form will be used for both types of loan requests. A copy of the application form should be submitted simultaneously to both the DOAV and the VRA. Airport sponsors should also send an information copy of their application to the Aviation Board member serving their area.

The DOAV and the VRA will simultaneously review each loan request prior to the next meeting of the VAB. During the review process, the DOAV will examine each loan application and notify the airport sponsor if an apparent problem exists. The notification would allow the sponsor an opportunity to adjust, correct or withdraw the application. Also, the DOAV will provide an approval recommendation to the VAB based on the sponsor's compliance with the Project Eligibility Criteria described below. If the DOAV is unable to verify compliance with the Project Eligibility Criteria it will return the application to the sponsor.

In a similar fashion, the staff of the VRA will review each application and contact airport sponsors if a problem is found or additional information is needed. In general, if an airport sponsor is unsure whether certain information is necessary to process an application, it should call either the DOAV's Airport Services Division or the VRA for help. Both the VRA and the DOAV will work closely with airport sponsors to help insure that each application is complete. Under the terms of the Memoranda of Agreement for the two programs, the DOAV will only recommend loan applications to the VAB that are complete, include the financial information required by the VRA, and meet the Project Eligibility Criteria.

The VAB will then consider each application at the appropriate Board meeting and act on them accordingly. As the VAB considers each loan request, it will ensure that each proposed project is eligible according to the Project Eligibility Criteria and is necessary for the overall development of the Virginia Air Transportation System. Loan requests that are found by the VAB to meet project eligibility requirements will then be forwarded to the VRA after being ranked according to Project Ranking System. This system is also described below.

The VRA will then complete its review of the financial and credit information provided by the applicant and determines the type of loan to be provided, i.e., either a revolving loan or a direct (bond) loan. When this process is completed, it will pool the various loan requests together by category and proceed to sell bonds to the investment community to raise the necessary funds that will provide the requested funds at the most attractive terms and conditions.

Section IV. Project Eligibility Criteria

A liberal definition of airport related projects that would be eligible for an ARLF loan are those that:

1. Are defined in Section 5.1-30.1 of the Code of Virginia (effective July 1, 1999), as "A project related to the needs or convenience of passengers, shipping companies, fixed base operators and airlines, together with any or all buildings or other structures, improvements, additions, extensions, replacements, machinery or equipment, and all appurtenances, lands, rights in land, aviation rights, water rights, rights-of-way, franchises, furnishings, landscaping, utilities, approaches, roadways, or other facilities necessary or desirable in connection therewith or incidental thereto;"
2. May be related to debt refinancing of previously financed projects;
3. May provide the airport sponsor's matching share of projects eligible for grants-in-aid from other State and/or federal revenue sources, including the Commonwealth Airport Fund and the federal Airport Improvement Program; and are either
4. On an airport's approved Airport Layout Plan (ALP); or
5. Related to an airport but located off airport property, as discussed below.

Because the ALP depicts only approved aeronautical use facilities on the airport, the test to determine the eligibility of an off-airport project hinges on whether a proposed project could be located on the airport except for a lack of space or other location requirements. Examples of off-airport projects that would meet this eligibility test are: automobile parking lots; air cargo sorting and distribution facilities; and multi-modal terminal facilities that provide passenger or cargo links from one transportation mode to another, e.g., rail to air, car to bus, air to bus, etc.

Section V. Project Priority System

An important distinction of the current *project priority system* is that it is used to evaluate a grant application before it is presented to the VAB for approval and not to evaluate or judge the merits of a sponsor's loan application. Loan funds should be available for any airport or aviation related purpose necessary for the development of the Virginia Air Transportation System, especially for projects that help airports generate sufficient funds to operate in a self-sufficient manner. The sole purpose of the project priority system is to rank those projects in the event that the cumulative loan amount required by all sponsors exceed the funds available.

Section VI. Project Ranking System

In the event that the demand for loans exceeds the amount of available funding, the *project ranking system* (shown below) will be used to establish the project ranking for all approved projects. After the VAB has determined which loan requests meet the project

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eligibility criteria and after each request has been ranked, they will be forwarded to the VRA for final action. The VRA will complete its review of the creditworthiness of the sponsor of each approved loan request and compare the total amount of acceptable loan requests with the total amount of bonds to be issued or the amount of funds that can be prudently loaned to the applicants. If funding is insufficient to cover all loan requests, the VRA will assemble a pool of projects to be funded that will yield an acceptable bond credit rating and also efficiently utilize available funds. As part of the process to assemble a pool of projects, the VRA will consider sponsor creditworthiness, project ranking, and the readiness of each sponsor to proceed with their approved projects.

The following table will be used to rank each project listed in an airport sponsor's combined Revolving Loan Fund or Bond Fund Program application.

Project Ranking System Table

Category and Assigned Weight	Sub-category	Sub-category Points	Category Total
Support of Locality (0.07)	support from locality – G.O. support from locality – M.O.	10 7	
Support of Airport (0.07)	airport support - general airport revenue pledge dedicated revenue pledge – multiple users dedicated revenue pledge – single users	10 5 1	
Public Interest (0.12)	serve general public/open access primarily used by a set of more than 3 primarily used by a set of 1 - 3	10 5 2	
Loan Ratio (0.07)	1/(Loan Amount/Total Project Cost)	(enter value)	
Loan Amount (0.07)	over \$15.0 million \$10.01 - \$15.0 million \$5.01 - \$10.0 million \$1.51 - \$5.0 million \$501,000 - \$1.5 million up to \$500,000	10 8 6 4 2 1	
Airport Type (0.12)	Commercial Service Reliever General Aviation – Regional General Aviation – Community General Aviation – Local Service	10 8 6 4 2	
State Interest (0.12) (sum all that are applicable)	environmental/health related economic development safety air transportation improved/increased capacity and access to air facilities	2 2 2 2 2	
Readiness to Proceed (0.12)	under construction construction completed within last year bids received design and plans underway environmental approvals received	10 7 5 3 1	
Refinancing (0.12)	no original financing less than 3.5 years old	10 4	
Revenue Producing Ability (0.12)	direct indirect	10 5	
POINT TOTAL			

¹ multiply sub-category points by assigned weight

Section VII. Insufficient Funds

In the event that there are insufficient funds to cover all loan requests, the VRA will notify the Chairman of the VAB and identify the projects that have been included in the final pool of projects. At the next regularly scheduled VAB meeting, the VAB may revise the final pool of projects so long as timeliness of bond issuance and availability of funding resources are not jeopardized, or other such financial risks are not taken that could, in the sole determination of VRA, damage, or create the risk of damage, to the viability of the program. In the event that there is no meeting timely scheduled to resolve the issue of the pooled projects, the VRA will, in writing, notify the Chairman of the VAB (or the VAB Vice-Chairman in the Chairman's absence), identify the final pool of projects, and state its intent to issue bonds and/or make direct loans available.

In accordance with the provisions of Section 2.1-343.1 of the Code of Virginia, the VAB may meet by teleconference to review the final pool of projects within a period of ten (10) working days following the VRA's written notification to the VAB. By majority vote of a quorum of VAB members voting, the VAB may either concur with the pool of projects suggested by the VRA, revise the pool of projects, or halt further action on the bond issue and require the VRA to await consultation with the VAB at its next regularly scheduled meeting for approval of a revised pool of projects.

If the VAB fails to meet within the period of ten (10) working days, by teleconference or otherwise, or otherwise fails to halt action on the bond issue, the pool of projects recommended by the VRA shall become the final pool of projects approved by the VAB.